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SUBJECT: MINAS GERAIS: THE VIEW FROM BELO HORIZONTE

Reftel: Rio de Janeiro 1118

SUMMARY

1. (U) From September 28-30, Rio Econ/Poloff visited a variety of people in Belo Horizonte, Minas Gerais state, to discuss business investments in the state and the state's aggressive and successful economic plan as well as national and local politics.

Abijaodi on international investments

2. (U) Rio Econ/Poloff, accompanied by Foreign Commercial Service (FCS) officer John Mueller, met with Carlos Abijaodi, manager of the powerful Federation of Industries of the State of Minas Gerais (FIEMG), which is working in concert with the Neves government to speed up the development process to attract more foreign investment. There are numerous points in favor of such investments, including the size of the state (larger than France or Spain) with an excellent climate, rich soil, and adequate water; the robust economy (equivalent to Denmark's or Chile's); and its strategic geographic position, in the center of a region where 78 percent of the Brazilian consumer market lies. The state has the best infra-structure in Brazil, according to Abijaodi, and its inhabitants are spread evenly throughout the state. The rail network is the largest in the country and is linked to maritime ports -- Vitoria in Espirito Santo state, Sepetiba in Rio de Janeiro state, and Santos in Sao Paulo state. Minas is responsible for almost a third of the electrical energy produced in Brazil. The state invests half of its budget in health and education, which in turn produces healthy, educated workers who can be responsive to innovations in industry.

3. (U) The kinds of industries which have been established in Minas Gerais include the following: mining, coffee, corn, paper and cellulose, soy, milk, beef, sugar, leather, automobile parts, cars, fruit, furniture, textiles and clothing, biotechnology, tourism, gold, plastic, and steel. Minas is responsible for 10.17 percent of Brazilian exports; in 2004, Minas Gerais achieved record sales of approximately USD 10 billion, making Minas the second largest exporting state in the country. For the past two years, Minas state registered the highest growth in the number of micro, small and medium businesses that export their goods. Imports in 2004 represented approximately USD 3,000,000. The largest importing partner is the United States, with 22 percent of the market, followed by Italy at 12 percent; the largest exporting partner is the United States, with 18 percent of the market, followed by China, with 12 percent. Abijaodi was particularly proud of the support his organization offers to investors in the state, including the BDMG (Development Bank of Minas Gerais), CEMIG (Energy Company of Minas Gerais), and the Industrial Development Institute of the State of Minas Gerais. The partnership between the FIEMG and the state government of Aécio Neves has been enthusiastic and professional in the promotion of foreign trade, to which the numbers attest. FIEMG has participated in organizing business delegations to European countries, Mercosur, India, China, Russia, among others, with satisfactory results.

Minas Gerais Development Bank

4. (SBU) Dr. Marilene Chaves, director, and Reinaldo Barros Lobo, manager for Planning and Economic Studies of the Minas Gerais Development Bank (BDMG), received Econ/Poloff on September 29 in the bank's downtown office. The BDMG has been the

executive agent of State Government projects for 43 years, Dr. Chaves stated enthusiastically. These projects, she said, have promoted the growth and modernization of the state and have diminished regional inequalities. The BDMG's first priority is to generate investment, jobs and income, she said. When Aécio Neves took office as Governor a little over two years ago, he informed the BDMG that his government was determined to launch a new style of development in the state. From being one of the economically worst managed states in Brazil when Neves took over, the state is now functioning in the black. Two important plans were developed at the beginning of Neves tenure -- the Plan for Integrated Development in Minas Gerais and the Multiannual Plan for Governmental Action, both of which have led to the promotion and financing of State economic and social development.

15. (U) The BDMG's scope of activities is large and diversified, both regionally and sectorally, focusing on industrial, agricultural, agroindustrial, commercial, and service sectors and infrastructure and urban development. In 2003, the BDMG approved loans amounting to Reais 696 million (approximately USD 258 million) to 4,691 customer in different regions and economic sectors of the state, creating approximately 11,700 direct job opportunities in the private sector. In addition to the expansion and modernization of the economy by strengthening the industrial hub, a new project is underway -- the Jaíba Project in the north of the state, which is an impoverished area with few productive opportunities. When the Jaíba Project is completed, it will be one of the world's largest irrigated areas, and the largest in Latin America. Another area of development is in the sugar/alcohol production chain, which will enable the state to become self-sufficient in the area. The BDMG also publishes studies by professionals in its areas of interest and recently published a ten-volume study entitled "Minas Gerais in the 21st Century." Two previous studies of this magnitude were done in 1967 and 1989. The study has as its goal a discussion of how state and municipal governments can create programs and projects that will contribute to economic development. These two economists, Dr. Chaves and Dr. Barros, were clearly proud to be involved in the direction the state government is going -- developing social programs along side its modernization of industries and businesses in the state.

State Secretary for Economic Development

16. (SBU) FCS Mueller also joined Econ/Poloff in the office of State Secretary for Economic Development Luiz Antonio Athayde Vasconcelos. Athayde iterated the dire economic straits of the Minas economy in 2003, when Aécio Neves took charge of the state government: it was the worst among the 27 states of Brazil. Neves got off to a good start, Athayde said, by reducing the bureaucracy, starting with cutting 27 Secretariats back to 14. In reality, however, only 6 Secretariats are running the state government. The result is that the state has gone from red to black, with a primary surplus this year of R800,000,000 (approximately USD 364 million) because of the huge reduction in administrative expenditures. With a lighter administration, decision-making moves quickly. The economic target of his Secretariat is to partner the state with private initiatives -- the hope is to open new enterprises within eight days, rather than the 180 days it takes in the rest of Brazil. Athayde predicted that in ten years Minas Gerais will have the highest level increase in economic activities in the country. The Neves government, with its team of economists and planners, has taken a long-term view of economic investment -- development of infrastructure, economic diversification, and promotion of innovation through support of state universities. They have developed a strategic plan for fifteen years -- and are currently in the third year. The central focus of this plan now is highway development, sewage and water treatment plants, rural electrification, building an administration center, airport development, improvement of the prison system, and building the campus of the state university (UEMG). He said many of those working economic issues in the current administration used to work at the BDMG and demonstrate the same contagious enthusiasm we noticed there.
Coimbra on national and local politics

17. (SBU) No visit to Belo Horizonte is complete without talking with Marcos Coimbra, President of the Vox Populi polling organization. Coimbra, an avid observer of national and local politics, opined that the scandals in Brasilia would have little impact on the 2006 presidential elections. He said the ball was clearly in Lula's court and that if Rebele won the Presidency of the Chamber (he did), the political crisis would end. Coimbra said the press was demonizing the politicians involved in the scandals, as the Workers' Party (PT) had not deviated at all from the political norm of handing out money to secure votes. President Lula said as much in a joint interview with French President Jacques Chirac in Paris on July 14, Econ/Poloff observed. Coimbra feels the only way forward now is for the PT to recognize the status quo as illegal and open an honest discussion on political financing. Coimbra asserted that Lula is still the favorite presidential candidate, despite the probable opposition of Sao Paulo Governor Alckmin and Sao Paulo Mayor Serra. Alckmin, the incarnate anti-Lula, has the support of the monied classes in Sao Paulo, and if only business people voted, Alckmin would receive 70 percent of the vote. He lacks personality, however, according to Coimbra (has never been involved in anything questionable, is a man who speaks softly, unemotionally, but is an excellent organizer), which will hurt him in running in areas of the northeast where Lula has particularly high support. Nonetheless, Coimbra believes Alckmin the best candidate by far to run for President.

18. (SBU) Not everything that can happen has yet happened, Coimbra stated. If for some miracle Anthony Garotinho (PMDB/Party of the Brazilian Democratic Movement) forced a second round in 2006 in the race for President, Coimbra said, he would be roundly defeated. Coimbra believes the PMDB has two other worthy candidates who are much better than Garotinho and that all the public brouhaha Garotinho is making (reftel) is simply to manipulate for a position in the future government. Coimbra noted that the opposition leaders in the PMDB feel uncomfortable with Garotinho because they do not like how he operates, having two or three satellite parties up his sleeve and prioritizing political cleverness as opposed to developing sound political positions.

19. (SBU) Coimbra said the people of Minas Gerais state were happy with their governor, Aecio Neves. Aecio, Coimbras noted, is moderate, and has established good relations with PT Mayor Pimentel and Minister of Social Development Patrus. This is in stark contrast to the PSDB in Sao Paulo, which tries to draw PT blood at every turn.

110. (SBU) Coimbra concluded the meeting by elaborating on Lula's likelihood of winning the Presidency in 2006, predicated on the economy continuing to remain strong. Lula's social programs such as the Bolsa Familia have already reached 8 million families. By next year, 11-12 million families will be receiving this assistance. Their strong tendency, he thought, would be to think well of the present government and vote Lula back into office.

111. (SBU) Comment: Certainly, the economic figures for the State of Minas Gerais augur well for near-term growth and stability; it appears that the bubbling enthusiasm of the economists and planners involved in this success, under the aegis of proactive Governor Aecio Neves, is merited. Whether Coimbra's predictions about the future presidential elections come true remain to be seen -- twelve months to October 2006 is a long political time.

112. (U) This cable was cleared by Embassy Brasilia.
ATKINS